

***ANNUAL REPORT
FISCAL YEAR 2009***

OFFICE OF INSPECTOR GENERAL



*State of Michigan
Department of Human Services*

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (OIG) is a criminal justice agency in the Department of Human Services, created in 1972. The primary duty of the OIG is to investigate cases of suspected fraud within the department. State law [MCL 400.43b] requires the OIG to perform the following activities:

- Investigate fraud, waste and abuse in the programs administered by the DHS.
- Make referrals for prosecution and disposition of appropriate cases as determined by the Inspector General.
- Review administrative policies, practices, and procedures.
- Make recommendations to improve program integrity and accountability.

MISSION STATEMENT

The mission of the Office of Inspector General is to assist the department in maintaining integrity and accountability in the administration of its programs. The OIG provides investigation and advisory services to ensure appropriate and efficient use of available public resources.

VALUES OF THE OFFICE OF INSPECTOR GENERAL

- Excellence in the performance of our duties
- Highest possible standards of professional conduct
- Innovation from all levels of the organization
- Support the accuracy and integrity of all DHS programs

The Office of Inspector General will be held accountable by the people of the State of Michigan for maintaining the highest standards of integrity and good moral character.

As members of the Office of Inspector General, we must work together as a team to plan and strive for excellence, realizing the daily decisions that are made will reflect on the future of our organization as a whole.

EXECUTIVE SUMMARY

AGENTS COMPLETE ACTION ON 5,214 CASES

The Office of Inspector General has increased efficiencies to improve productivity. Agents completed fraud investigations on 5,214 fraud cases in FY2009. Agents referred 2,916 cases to county prosecutors for action and 369 cases were resolved via administrative action. Agents conducted an additional 1,929 investigations where it was determined that no fraud had occurred.

INCREASE IN FRAUD FOUND

The dollar value of cases referred to county prosecutors in FY2009 was \$18.56 million for a two year total of \$37.2 million. The two year total represents a 10 percent increase over the \$33.7 million during the previous two years.

INCREASE IN RECEIVABLES THROUGH FRAUD INVESTIGATIONS

The dollar value of total receivables established during FY2009 was \$14.3 million for a two year total of \$29.1 million. The total represents an 8 percent increase over the \$26.9 million during the previous two years.

SPECIAL INVESTIGATIONS UNIT

The Special Investigations Unit (SIU) is tasked with completing complex criminal and administrative investigations of DHS employees, contractors, businesses, vendors and recipients that receive program funds administered by DHS. The SIU completed 126 cases, identifying over \$1.3 million of alleged fraud in FY2009. In June 2009, the SIU began providing investigation services for the federally funded Weatherization Assistance program. SIU staff met with and provided fraud awareness training to Community Action Agencies that administer the program.

OFFICE OF MONITORING AND INTERNAL CONTROLS

The Office of Monitoring and Internal Controls (OMIC) contacted 7,730 child care providers and reviewed time and attendance records for compliance with Child Development and Care (CDC) program requirements. As a result, 3,659 providers were terminated from the CDC program for significant non-compliance. OMIC efforts resulted in \$6,586,200 in cost savings to DHS. OMIC staff has created a more effective and efficient process to review 10,000 provider time and attendance records during FY2010. Based on the success from FY2009, the department could realize a projected cost savings of over \$10,000,000 through FY2010.

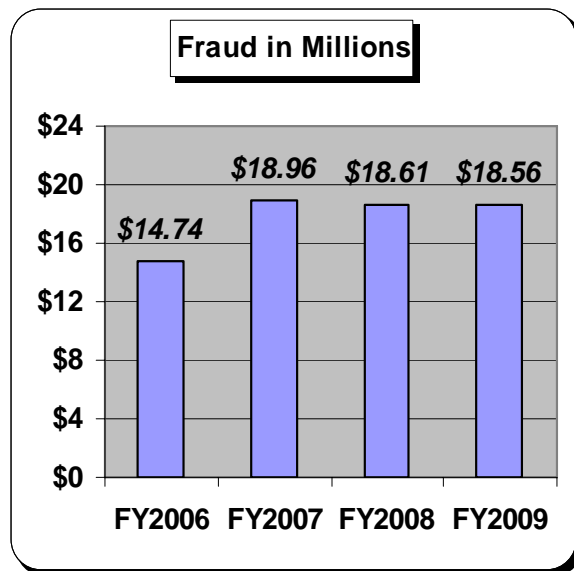
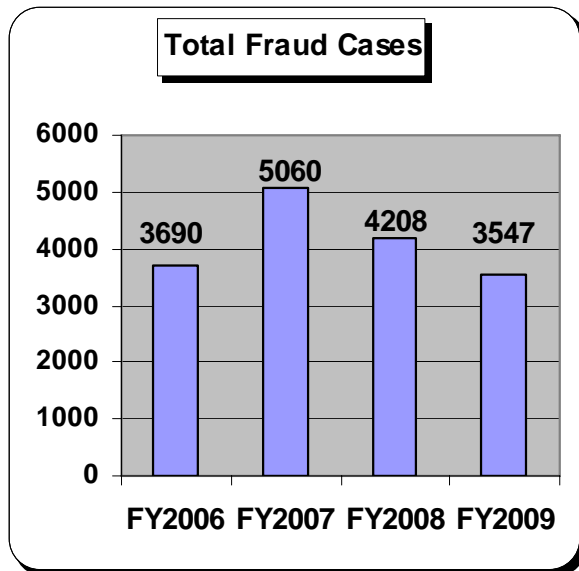
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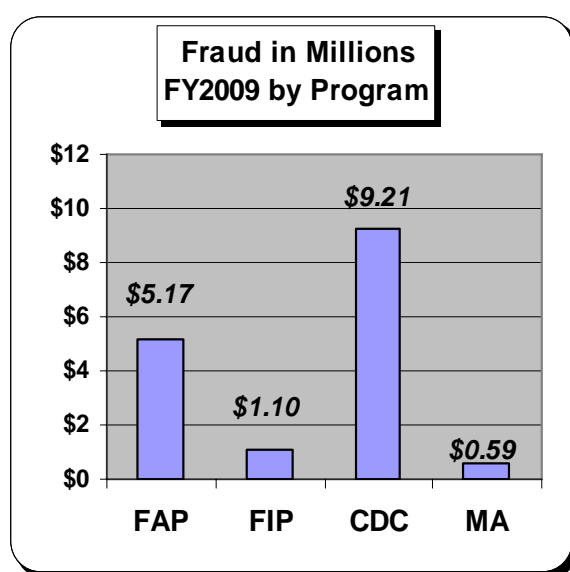
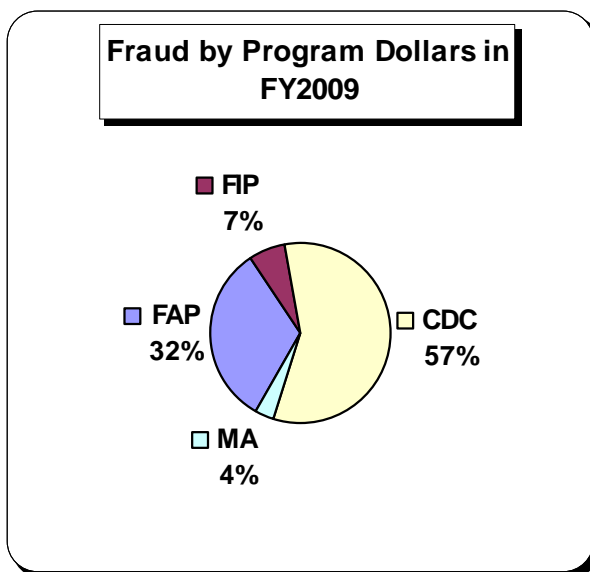
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FRAUD INVESTIGATIONS

OIG agents established 16,505 fraud cases over the past four years, with the majority involving multiple Department of Human Services program areas. During the four years, 5,400 criminal warrants were authorized by county prosecutors. Investigations by OIG agents have discovered over \$70 million in fraud during the four year period.



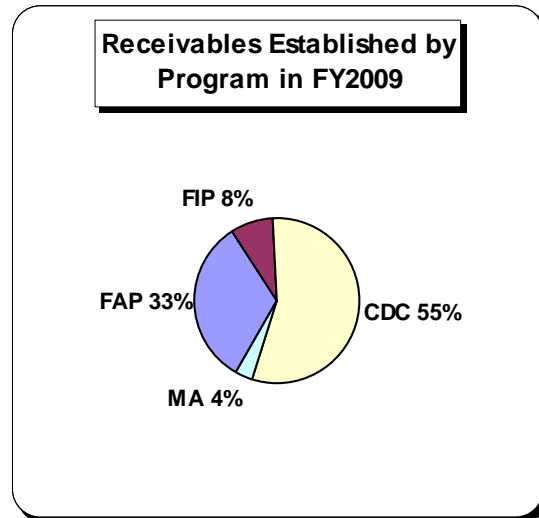
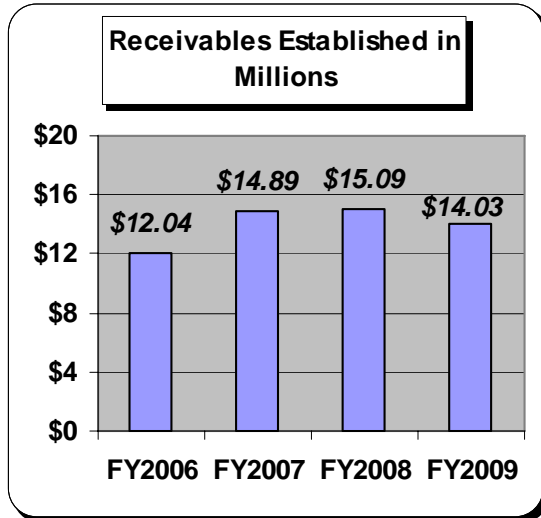
Fraud in the Child Development and Care program accounted for 57 percent of the program fraud during FY2008. Over \$9.2 million of CDC fraud was identified by OIG in FY2009.



CDC = Child Development and Care Program
 FAP = Food Assistance Program
 FIP = Family Independence Program
 MA = Medicaid Assistance Program

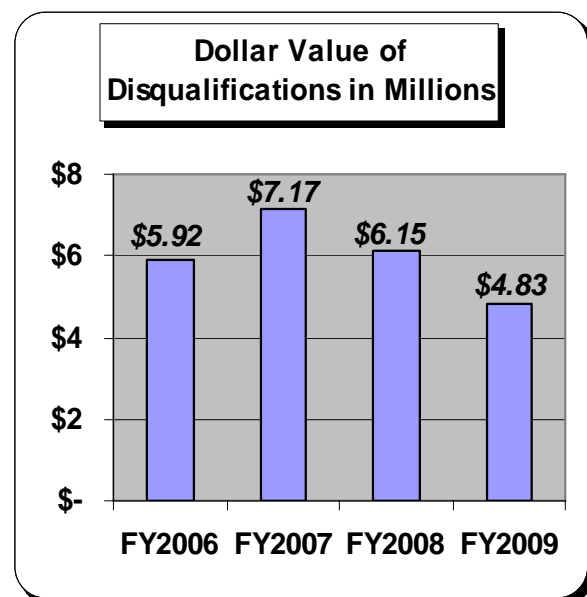
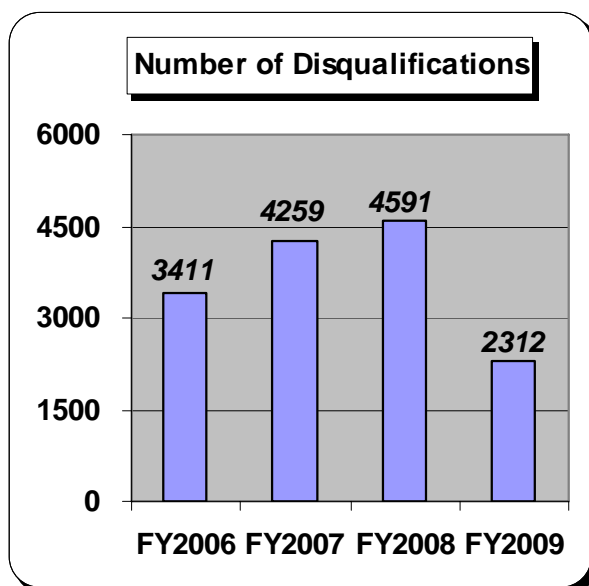
RECEIVABLES ESTABLISHED

OIG investigations established over \$56 million in receivables over the past four years. The gains over the past three years were primarily a result of an increase in cases where clients voluntarily signed repayment agreements. The Child Development and Care program accounted for 55 percent of all receivables established in FY2009.



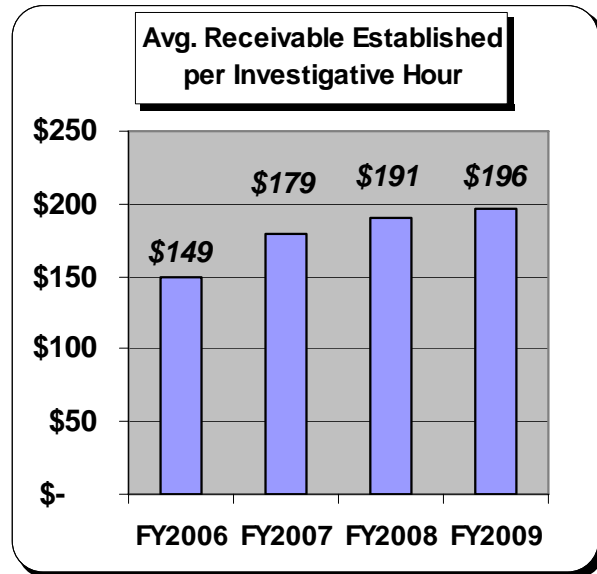
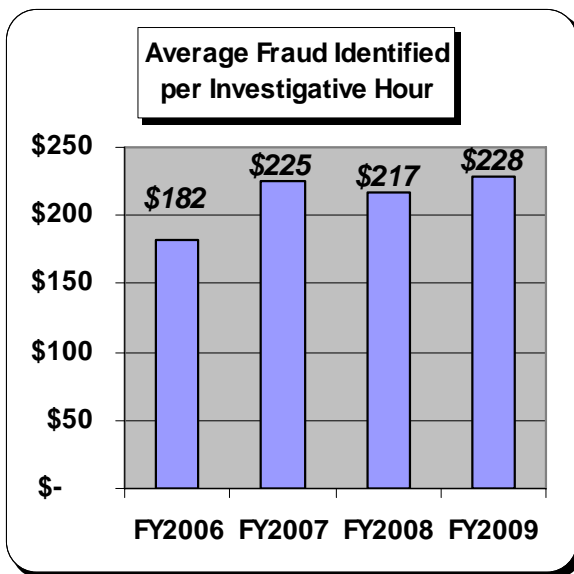
PROGRAM SAVINGS VIA DISQUALIFICATIONS

Disqualifications are a penalty for committing an intentional program violation. Clients found to have violated the FIP, FAP or SDA program rules do not receive benefits during disqualification periods. The dollar value of disqualifications imposed as a result of OIG investigations over the past four years was over \$24 million.



COST EFFECTIVENESS and PRODUCTIVITY

The average fraud found per investigative hour in FY2009 was \$228. The average receivable established per investigative hour in FY2009 was \$196.

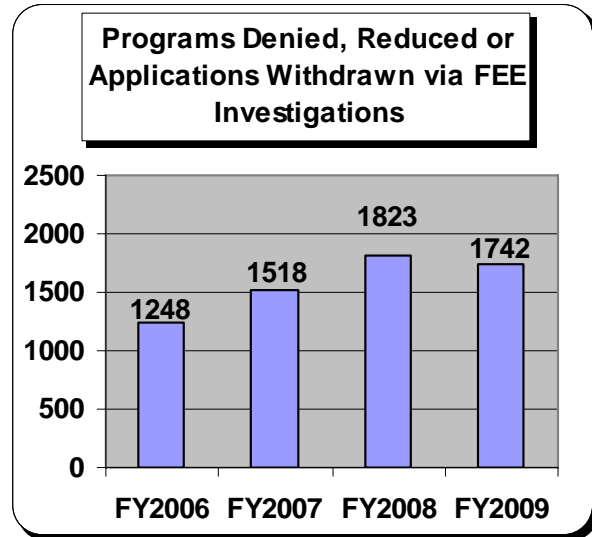
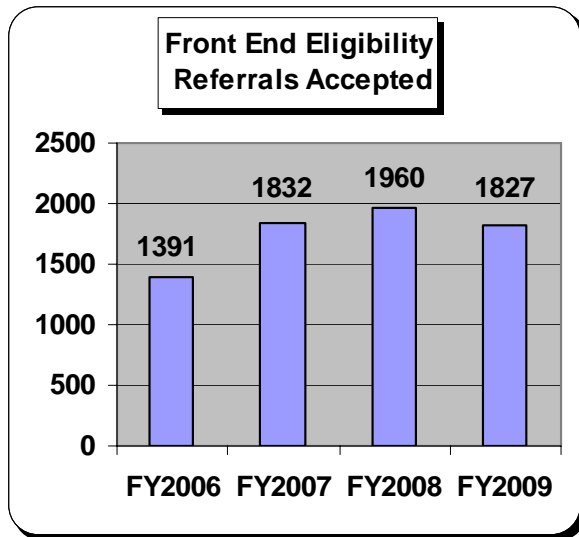


The average cost per hour for a regulation agent in FY2009 was \$40*. The cost effectiveness ratio for fraud identified per investigative hour was 5.7 to 1 in FY2009. The cost effectiveness ratio for receivables established per investigative hour was 4.9 to 1 in FY2009.

**Agent costs per hour include salary and wages and benefits for Regulation Agent 11 position at the top of the pay scale.*

FRONT END ELIGIBILITY (FEE)

Department of Human Services field staff may request a pre-eligibility investigation by an OIG agent when applications or re-certifications for public assistance contain suspicious or error prone information. In focusing on fraud prevention in Wayne, Oakland, Macomb and Berrien Counties, FEE agents have played a vital role in error reduction.



By partnering with county and district DHS managers, supervisors and specialists, FEE agents have made substantial progress in identifying potential fraud prior to case opening. Investigations by OIG agents have resulted in over \$30 million in program savings over the four year period.



The following are some examples of FEE investigation results:

Medicaid Fraud

An eligibility worker suspected unreported income and excess assets after a client applied for Medicaid for payment of her child's \$18,407 hospital bill. A FEE agent visiting to the client's home discovered that the client, her husband and three children live with the husband's brother, his wife, three other children and their mother in law. The agent also discovered that the client was a Home Help Provider for her mother-in-law and that her husband received a monthly rental amount of \$2,500 from a phone store housed in a commercial building that was one of many owned by the client's husband. Further, the client's brother-in-law owned a restaurant where her husband and other family members are employed. During visits to the restaurant and the phone business, the agent observed thriving businesses. The agent contacted the eligibility worker who has active cases on additional family members advising her of the alleged family-owned businesses. The denial of the Medicaid application amounted to a cost avoidance of \$18,407. A further investigation to detect fraud in other department programs is ongoing.

Excess Assets

A client applied in February for Medicaid in the amount of \$24,439 and was denied due to excess assets. A FEE agent's investigation disclosed that the client had assets of \$22,000 in February. The client reapplied with another medical bill in the amount of \$17,358 in June. The client stated he used the money to pay a debt, but could not provide proof. During an in-home interview the client stated that he had \$16,000 in cash in February but owed \$15,000 to a friend and he paid him in cash. The client stated there were no paper transactions. He stated that his friend lives in Los Angeles, California, but he refused to provide additional information. The client refused to give the agent his friend's name or telephone number for verification. The client's Medicaid application was denied. Total savings in the Medicaid program amounted to \$17,358.

Unreported Income

An eligibility worker suspected that a client was under-reporting income and assets as well as her marital status when she applied for Medicaid. The client stated she could not provide the actual amount of income in the household. A FEE agent's investigation included a field visit to an auto repair business owned by the father of the client's children. The agent encountered both the client and her children's father working at the business. The client wore a wedding ring but claimed not to be married. The FEE agent subpoenaed records from the client's bank, her accountant and the Internal Revenue Service. The investigation concluded that the client and her children's father had a lucrative business and several joint bank accounts. The worker denied Medicaid in the amount of \$450 and one-time medical bill payments in the amount of \$22,893 and \$19,783. The total savings in the Medicaid program amounted to \$43,126.

Group Composition

An eligibility specialist made a referral after the client reported, "She braids hair in her home and also provides Child Day Care." During an attempt to contact the client by phone, a male answered the phone and the specialist heard a child in the background asking for his "daddy." A home call was made to the client's residence by a FEE agent. An unidentified male answered the door. An interview was attempted. However, the

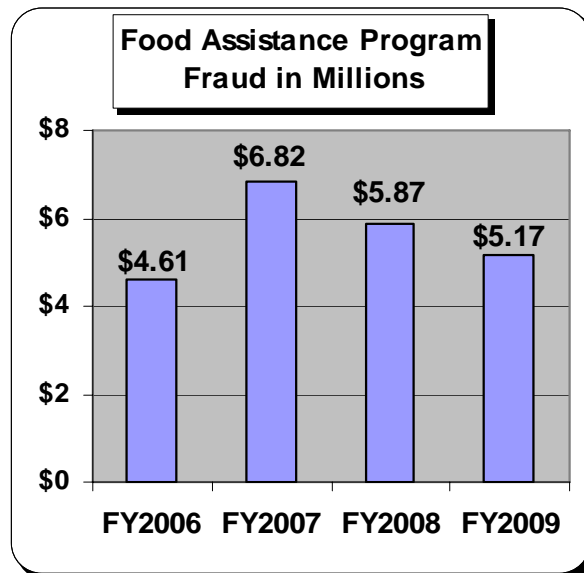
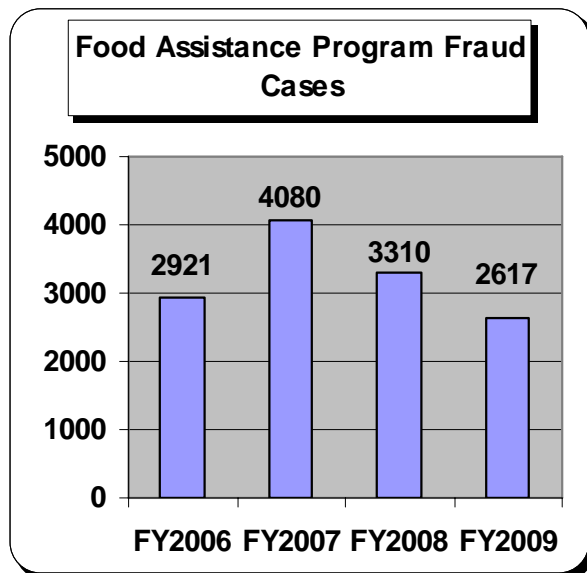
client refused to answer questions regarding the group composition and requested immediate case closure. Savings in the Medicaid program amounted to \$1,200 per month, savings in the Food Assistance program were \$821 per month, and savings in the Family Assistance program were \$877 per month. The projected annual savings in the three programs amounted to \$34,776.

Excess Assets

At a re-determination interview, members of the active case included the pregnant wife and two children. The client wanted to add her husband and four additional children to her case. The eligibility specialist noticed the client's husband reported employment as an assistant manager. Although the client's employer has the same name as her husband, the husband denied any business relations when questioned by the specialist. The specialist referred the case to OIG. The FEE agent investigation discovered proof that the husband owned and operated two restaurants. A visit was made to one of the business locations and an interview was conducted with the client's husband. The husband admitted he is the owner of both sites. A written request to withdraw the client's application was obtained by the agent. Savings in the Medicaid program amounted to \$1,200 per month. Savings in the Food Assistance program were \$1,058 per month and savings in the Child Development and Care program were \$1,024 per month. The projected annual savings in the three programs amounted to \$39,384.

FOOD ASSISTANCE PROGRAM (FAP)

During the past four years, the Office of Inspector General has investigated 12,928 fraud cases in the Food Assistance Program. The fraud found in FY2009 was \$5.17 million for a four year total of \$22.5 million.



Food Assistance Trafficking

The OIG partners with the U.S. Department of Agriculture-OIG (USDA_OIG) and the Michigan State Police (MSP) to investigate Food Assistance Program client and retailer trafficking of electronic benefits via the Bridge Card in Michigan. Trafficking involves the buying or selling of Food Assistance benefits for cash or consideration other than eligible food.

Trafficking Investigation

In September 2009 OIG agents partnered with the USDA-OIG and the MSP in the investigation and arrests of four suspects associated with Corner Pantry, a retail store in Detroit, Michigan. Approximately \$90,000 in U.S. currency was seized during the arrests. Suspect transactions of nearly \$670,000 in food assistance trafficking have been ascribed to the store.

Fifty individuals receiving FAP benefits were identified as having multiple transactions of a large and suspicious nature. During the course of the investigation, written statements of wrong-doing from the individuals were obtained and \$50,626 was established in claims. Additionally, \$59,532 in FAP program savings have been achieved through the disqualification of benefits as a result of the intentional program violations.

Illegal Use of Food Assistance Benefits

The OIG supported a joint USDA-OIG/MSP Bridge Card Enforcement Unit investigation on a Detroit store accused of selling food stamps for drugs including Viagra, liquor, pornography, and money. Jefferson's Liquor Palace made national news when its owners were charged in federal court. OIG continues to support prosecution through data analysis and court testimony. The fraud amount was identified to be over \$130,000 over a 2½ year period. The store is now closed via this enforcement action.

Food Assistance Benefits Cashied Outside Michigan

The OIG partners with the nationwide Public Assistance Reporting Information System (PARIS) to identify clients who engage in Food Assistance transactions outside of Michigan for extended periods, suggesting they may no longer be Michigan residents.

A FY2009 data match identified 736 households where FAP benefits were redeemed in states other than Michigan. Of these, 337 (46 percent) of the households' cases were closed within the month of OIG contact to the local DHS offices. The average household's monthly FAP benefits were \$252. This equates to a savings of over \$509,000 in FAP benefits over a six month period. Other programmatic savings, including FIP, SDA and MA were also realized as a result of this proactive approach to fraud detection.

Midwest Rankings

The United States Department of Agriculture-Food and Nutrition Service (USDA-FNS) compiles state activity reports on an annual basis. Michigan is grouped along with Illinois, Indiana, Minnesota, Ohio and Wisconsin in the Midwest region.

Among the six states Michigan is ranked at or near the top in the following categories:

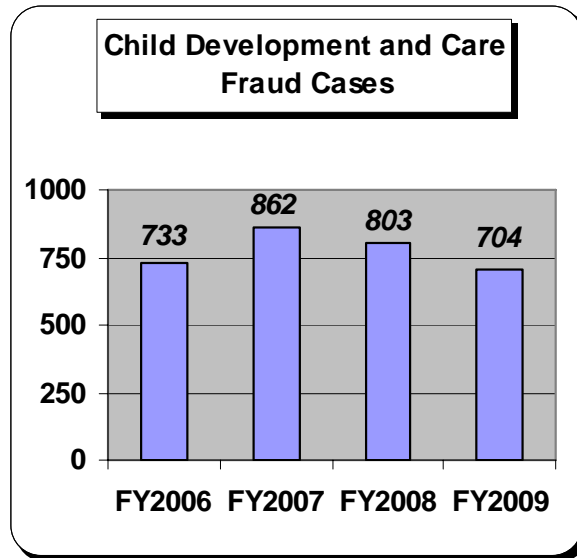
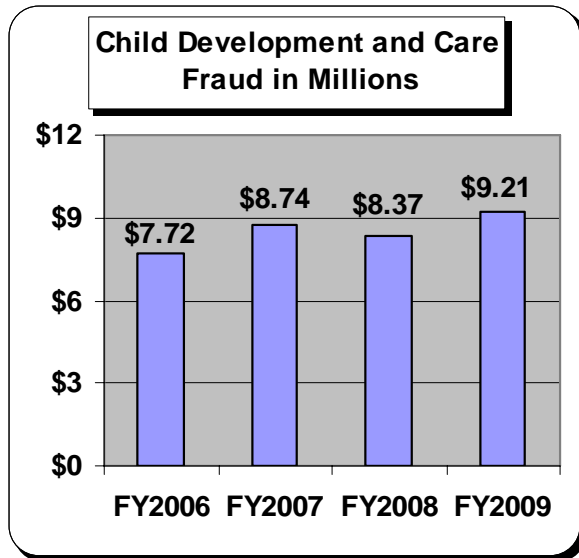
<i>First</i>	New Fraud Claims Established (\$)
<i>First</i>	Fraud Claims Recouped (\$)
<i>First</i>	Amount of Fraud Determined (\$)
<i>First</i>	Disqualifications from Consent Agreements
<i>First</i>	Disqualifications from Prosecutions
<i>Fourth</i>	Disqualifications from Administrative Hearings
<i>First</i>	Total Disqualifications

The most recent year for which data are available is FY2007.

http://www.fns.usda.gov/snap/qc/pdfs/2007_state_activity.pdf

CHILD DEVELOPMENT and CARE PROGRAM (CDC)

The fraud identified by OIG Agents in FY2009 was \$9.21 million for a four year total of \$34.04 million. As the OIG continues to focus on high-risk provider and client cases, findings are used to make recommendations for improved CDC policy and payment accuracy.



The OIG has developed an innovative approach utilizing technology to match clients with employment earnings records maintained by the Michigan Unemployment Insurance Agency to identify potential CDC overpayments. In partnership with the Department of Information Technology (DIT), OIG implemented a first-in-the-nation Reverse Wage Match, linking day care benefits data with wages data and establishing parameters to detect fraud in the program. The OIG uses the data to correlate those clients who are receiving a high level of CDC due to “employment” but have low or no income reported.

The National Association of State Chief Information Officers (NASCIO) honored Michigan’s Department of Human Services Office of Inspector General with a recognition award for the innovative use of technology for fraud detection.

SPECIAL INVESTIGATIONS UNIT

In addition to DHS client welfare fraud investigations, the OIG is responsible for investigating complaints and referrals regarding suspected fraud by outside agencies that provide services to DHS clients. The SIU also investigates allegations of employee misconduct. These more complex criminal and administrative investigations may involve service and child care providers, vendors, EBT retailers and DHS employees.

The following are some examples of Special Investigation Unit results:

DHS EMPLOYEE CHARGED

The SIU conducted an investigation of a DHS employee who opened a Food Assistance Payments (FAP) case for a client residing in her house. The investigation revealed that the employee opened the FAP case under the guise that the client was homeless. The client was picked up by the state police on an outstanding warrant a few days after the FAP case was opened. The client informed the trooper that his worker, who he resided with, failed to give him his Bridge card. The SIU investigation revealed that the DHS employee used the client's bridge card the evening he was arrested. The employee was terminated from state employment and later charged by the Shiawassee County Prosecutor.

CDC DAYCARE CENTER FRAUD

A Kalamazoo County daycare center owner admitted that he overbilled the state for daycare services. The owner further admitted that he continued to bill the State of Michigan for daycare services for a deceased child. The provider signed a Provider Repayment Agreement acknowledging responsibility to repay the over issuance of \$23,949. The provider was charged by the Kalamazoo County Prosecutor and the case is in the process of going to trial.

ADOPTION SUBSIDY FRAUD

The SIU submitted a complaint to the Michigan Attorney General regarding an Adoption Subsidy program fraud committed in Wayne County. An adoptive parent continued to receive Adoption Subsidy funds in excess of \$20,000 after the individual no longer had custody of the child. The fraud was discovered when the child's new adoptive parent inquired about a subsidy for her child and was informed that a case already existed. The former adoptive parent pled guilty to False Pretenses over \$20,000.

MASON COUNTY DAYCARE FRAUD

The SIU conducted an investigation of a Mason County Child Day Care Provider for overbilling DHS. The investigation revealed that the provider received \$23,190 in ineligible payments based on overbilled hours. The case was referred to the Mason County Prosecuting Attorney's office, who deferred prosecution provided the day care provider adhered to the penalties outlined in a written plea agreement. The day care provider was required to pay \$780 per month for 24 months, perform 60 hours of community service, pay court cost and fines, and pay \$4,500 up front to start repayment of the overbilled hours.

DHS EMPLOYEE CHARGED

The SIU conducted an investigation of an Allegan County DHS employee who lived with a DHS client. The client applied for State Emergency Relief for fuel oil, which was denied due to excess income from the DHS employee. Upon receiving the denial, the employee informed his supervisor that he had moved from the residence. The employee produced a letter he allegedly gave his landlord informing the landlord that he had moved out. DHS paid the fuel oil purchase since the client was then income-eligible. The investigation revealed that the client had not moved out of the residence and that the employee had continued to live with the client. The employee confessed to having stayed in the house, resigned from state employment and was charged by the Allegan County Prosecutor for Welfare Fraud over \$500.

DAYCARE PROVIDER FRAUDS

An SIU investigation of an Otsego County Child Day Care Provider revealed that she overbilled DHS in the amount of \$25,030. The Provider was charged, pled guilty, and was incarcerated immediately upon being sentenced to two months in jail and two years probation.

KALAMAZOO COUNTY CLAIMS FALSE RELATIVE RELATIONSHIP

The SIU conducted an investigation of a Kalamazoo County Relative Care Provider who billed DHS for children who were not related to the provider. The investigation revealed that the provider was not related to the children and thus was ineligible to receive \$76,587. The provider signed a repayment agreement with the department and the case was submitted to the Kalamazoo County Prosecutor for criminal prosecution.